

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
NOVEMBER 2006**

**CON REVIEW FSF-MME-0906-025
HATTIESBURG CLINIC PROFESSIONAL ASSOCIATION
ACQUISITION OF AN MRI UNIT
CAPITAL EXPENDITURE: \$2,711,682
LOCATION: HATTIESBURG, FORREST COUNTY, MS**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Hattiesburg Clinic Professional Association is a Mississippi professional association located in Hattiesburg, Forrest County, Mississippi. Hattiesburg Clinic has a certificate of good standing from the State of Mississippi's Secretary of State Office. The association is a physician-owned group practice with more than 180 physicians representing almost every medical specialty.

The association is presently governed by a fourteen member Board. The facility participates in the Medicaid and Medicare programs.

The clinic currently holds Certificates of Need to operate End Stage Renal Disease, Ambulatory Surgery, Diagnostic Cardiac Catheterization, Renal Extracorporeal Shock Wave Lithotripsy facilities and Mobile PET Scanner.

B. Project Description

Hattiesburg Clinic Professional Association currently provides MRI services at 415 South 28th Avenue, Hattiesburg, Mississippi, using a 1.5 Tesla Signa magnetic resonance imaging (MRI) unit. The applicant requests CON authority to acquire a second magnetic resonance imaging (MRI) unit. The unit proposed is a GE Healthcare Technologies 3.0 Tesla Signa. In addition to the purchase of the MRI unit, this project involves new construction of approximately 1,159 square feet to accommodate the additional MRI unit at Hattiesburg Clinic. The total capital expenditure for the proposed project is \$2,711,682.

The MRI services will be provided during regular business days and hours, and will be available after-hours and on weekends, as needed, and based on patient demand. Hattiesburg Clinic affirms that a board certified radiologist will be on site during the hours of operation to provide interpretation of clinical images. Also, a trained, experienced MRI technologist will be available during the hours of operation. The project will involve approximately 1,159 square feet of new construction as an addition to the Clinic's imaging area to house the MRI unit.

The Division of Health Facilities Licensure and Certification has approved the site of this project.

The expected completion date for this project is March 31, 2008.

II. TYPE OF REVIEW REQUESTED

The Mississippi Department of Health reviews applications for the acquisition of major medical equipment in accordance with Section 41-7-191, subparagraph 1(f) Mississippi Code 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code of 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires December 5, 2006.

III. CONFORMANCE WITH THE STATE PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The *FY 2006 State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for the acquisition or otherwise control of MRI equipment. This application is in substantial compliance with applicable criteria and standards.

SHP Criterion 1- Need

The Certificate of Need criteria and standards for acquisition or otherwise control of MRI Equipment outlined in the *FY 2006 Mississippi State Health Plan* states

that an entity desiring to acquire or otherwise control the MRI equipment must document that the specified equipment shall perform a minimum of 1,700 procedures per year by the end of the second year of operation, utilizing the procedures estimation methodology contained in the SHP.

Hattiesburg Clinic states that there is a need for a second MRI unit because currently the clinic provides MRI services through the use of a single MRI unit. According to the FY 2006 *Mississippi State Health Plan*, Hattiesburg Clinic's single MRI unit performed 6,763 procedures in fiscal year 2003 and 6,841 MRI procedures in fiscal year 2004. Additionally, in 2005, Hattiesburg Clinic performed 7,549 MRI procedures. The applicant further states that in 2006 the clinic has performed 5,559 MRI procedures year-to-date, which means that the projected volume for 2006 is approximately 9,529 MRI procedures.

Hattiesburg Clinic feels that these utilization statistics demonstrate, without question, that Hattiesburg Clinic has an obvious need for a second MRI unit. According to the Mississippi State Health Plan, the optimum utilization of an MRI unit is between 2,000 to 2,500 procedures annually.

Hattiesburg Clinic states that the existing MRI unit substantially exceeds the optimum range of utilization. As a result, the Clinic has been forced to schedule patients for an MRI procedure after hours and on weekends, which results in unnecessary inconvenience to the patients.

Hattiesburg Clinic further states that based on the historical utilization of MRI services at Hattiesburg Clinic alone, there is a clear justification for a second unit. The applicant asserts that optimum utilization, two MRI units, would perform between 4,000 and 5,000 procedures annually. The volume of MRI procedures at Hattiesburg Clinic already exceeds the optimum utilization of two units without taking into consideration the anticipated future growth, which will result in even greater MRI utilization at Hattiesburg Clinic.

The applicant submitted copies of four letters from physicians indicating that they support the proposed project.

SHP Criterion 2 – Documentation of Diagnostic Imaging Modalities

The applicant certifies that the equipment proposed in this application is FDA approved and that the Clinic currently provides MRI services, and has trained and qualified personnel to operate the MRI equipment.

SHP Criterion 3 – Data Requirement

Hattiesburg Clinic certifies that the facility will record and maintain the information required by this criterion and shall make it available to the Mississippi Department of Health within 15 days of request.

SHP Criterion 4 – Authorized Entity

Hattiesburg Clinic Professional Association was formed on July 1, 1971, by the filing of a Certificate of Formation with the Secretary of State Office for the State of Mississippi. A letter of good standing is attached to the application.

SHP Criterion 5 – CON Approval

Hattiesburg Clinic is seeking CON approval for the proposed MRI unit.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, revised August 12, 2006*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – Consistency with the State Health Plan

According to Hattiesburg Clinic, the acquisition of an MRI unit is a service directly addressed by the *State Health Plan* to ensure appropriate distribution of service, quality, and cost. The proposed project is in compliance with all criteria and standards for the establishment of MRI services as contained in the *State Health Plan*.

GR Criterion 2 - Long Range Plan

Hattiesburg Clinic states that their clinic is the largest physician clinic in the state of Mississippi, one of the largest in the southeastern part of the United States, and is committed to high quality and efficient patient care. The Clinic engages in an on-going planning process to insure that its professional and support services are consistent with patient needs and demands. The applicant cites that this application is the product of a planning process in which the Clinic assessed the immediate and long-range needs of the Clinic in the area of diagnostic imaging.

GR Criterion 3- Availability of Alternatives

The applicant states that in developing this project, Hattiesburg Clinic considered the alternative of using a mobile MRI unit. However, the option was rejected because a mobile MRI unit would not be adequate to meet the need compared to a second fixed based MRI unit at the Clinic. Also, the use of a mobile unit would not be sufficient to meet patient needs and demands.

Existing fixed MRI units in GHSA 6 are performing at the minimum and/or well above the optimum level that is required under the *Mississippi State Health Plan*. The applicant believes that the historical and current utilization of the MRI units in GHSA 6 demonstrates that there is a need for an additional MRI unit in the service area.

GR Criterion 4 - Economic Viability

The applicant's three-year projected operating statement indicates that total operating revenue over a projected three year period will increase from \$233,475,326 to \$246,599,070. In addition, the statement shows that net operating income will increase from \$2,468,017 to \$2,866,752 over three years. The applicant cites that they do not anticipate the Clinic's financial forecast to deviate significantly from previous financial statements. However, by the same token the financial statement provides evidence that Hattiesburg Clinic has the financial resources necessary to fund and operate the proposed project. The applicant also doesn't anticipate that the proposed project will have any material impact on the cost of health care and that the Clinic's charges for MRI services will continue to be competitive and reasonable.

GR Criterion 5 - Need for the Project

The applicant feels that the need for this project has been demonstrated by historical utilization of MRI services at Hattiesburg Clinic. Additionally, the applicant believes that the population served by the Clinic has a clear need and demand for the additional MRI capacity.

According to the *FY 2006 State Health Plan*, there are currently seven fixed MRI locations and two mobile locations operating in General Hospital Service Area 6. Updated information for FY 2005 indicates that one additional location has been awarded a CON to provide MRI services two days per week. (Please see the following table).

MRI Procedures IN GHSA 6

Facility	Location	Type /No. of Equipment	# of Proc. 2003	# of Proc. 2004	*Updated # of Proc. 2005	Days Operated	FTE Units
Forrest General Hospital	Hattiesburg	F(2)●	6,200	6,793	6,748	Mon-Sat	2
Hattiesburg Clinic, P.A.°	Hattiesburg	F	6,763	6,841	7,550	Mon-Sun	1
HRG - Covington County Hospital**	Collins	M	CON	9	3	Fri	0.2
Open MRI, Inc.	Laurel	F	1,946	2,031	3,386	Mon-Fri	1
Open MRI -Marion General Hospital	Columbia	M	CON	180	33	Wed	0.2
South Central Regional Medical Center	Laurel	F	3,797	4,002	3,572	Mon-Fri	1
Southern Bone and Joint Specialist, P.A.	Hattiesburg	F	3,807	4,462	5,306	Mon - Sat	1
Southern Medical Imaging	Hattiesburg	F	1,117	1,599	1,781	Mon - Fri	1
Wayne County Hospital	Waynesboro	M	—	—	CON	Mon & Wed	0.4
Wesley Medical Center	Hattiesburg	F	3,473	3,945	3,592	Mon- Fri	1
Total			27,103	29,862	31,971	—	—
Full Time Equivalent Units			8.4	8.4	8.8	—	8.8
Average Number of Procedures per FTE Unit			3,226	3,555	3,633	—	—

Note: * 2005 updated survey information
** Hattiesburg Radiological Group
● Forrest General Hospital added one fixed unit in 2004.
° Applicant

GR Criterion 6- Access to the Facility

The applicant affirms that all residents of GHSA 6, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly will have access to the services of the existing facility and the proposed services and/or facility. The applicant indicates the expected payor mix by type of payor will be as follows: Medicaid 6%, Medicare 35%, Private Pay 46%, Self Pay 1%, and Other 12%.

GR Criterion 7- Information Requirement

Hattiesburg Clinic affirms that they will record and maintain the information required by this criterion and shall make the data available to the Mississippi Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Hattiesburg Clinic is located in GHSA 6 where there are currently seven locations providing fixed services, two locations providing mobile MRI services, and one additional location authorized to provide mobile MRI services. However, this proposal is based on the documented institution-specific needs of Hattiesburg Clinic and its patients. Thus, the applicant does not anticipate that this project will have an adverse impact on any of the MRI providers in the service area. Given the number and utilization of units present in the GHSA 6 and the number of procedures performed on the clinic's single MRI unit in 2005, staff agrees that the project can be viable without causing an adverse impact on existing providers in the area.

GR Criterion 9 - Availability of Resources

The applicant affirms that the clinic has the experience and resources necessary to staff the proposed project.

GR Criterion 10- Relationship to Ancillary or Support Services

Hattiesburg Clinic currently offers MRI services, and is familiar with the support and ancillary services necessary for the successful operation of diagnostic imaging services.

GR Criterion 11 – Health Professional Training Programs

Hattiesburg Clinic affirms that the clinic will coordinate with the health professional schools in the area with respect to access to its services for training proposes.

GR Criterion 12 – Access by Health Professional Schools

Hattiesburg Clinic affirms that the clinic will work to accommodate the clinical needs of the health professional training programs in the area.

GR Criterion 16 - Quality of Care

Hattiesburg Clinic states that they offer high quality patient care to the residents of GHSA 6. Hattiesburg Clinic further states that the physicians affiliated with the clinic are licensed by the Mississippi State Board of Medical Licensure, and are highly skilled to provide professional services in a variety of medical specialties.

According to the applicant, the proposed project will elevate the quality of care provided to patients in need of diagnostic imaging through the introduction of advanced MRI technology.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction	\$ 457,163
Renovation Construction	-
Capital Improvements	-
Fixed Equipment	2,203,660
Non-Fixed Equipment	-
Land Cost	-
Site Preparation	-
Fees (Architectural, Consultant, etc)	32,001
Contingency Reserve	-
Capitalized Interest	18,858
Other (ramp, concrete and power connection)	
Total Proposed Capital Expenditure	<u>\$ 2,711,682</u>

The above capital expenditure is proposed for the purchase of one MRI unit and construction. The MRI unit, control area, and waiting room will account for 1,159 square feet of new construction. The cost per square foot of new construction is \$438.33. (See Attachment 2) The cost per square foot exceeds ¾ percent of

projects listed in the Means Construction Cost Data, 2006 Edition. According to the applicant, the cost per square foot is realistic and reasonable due to the equipment being placed in a relatively small area. In addition, the applicant states that construction costs in South Mississippi are significantly higher than they were before Hurricane Katrina struck in August of 2005.

B. Method of Financing

Hattiesburg Clinic proposes to finance the proposed project through an established line of credit with BancorpSouth. BancorpSouth plans to convert the loan to permanent financing at the end of construction phase, with monthly principal and interest payments amortized for up to 20 years.

C. Effect on Operating Costs

The applicant projects gross revenues of \$510,445,000, \$557,943,800, and \$608,639,960; and expenses of \$231,007,309, \$237,605,553, and \$243,732,318 the first, second, and third year of operation, respectively. Utilization, expenses, and results from operation are presented in the applicant's Three-Year Projected Operating Statement. The applicant projects net income of \$2,468,017, \$2,528,838 and \$2,866,752 for the first 3 years of operation, respectively. (See Attachment 1)

D. Cost to Medicaid/Medicare

The applicant's projected cost to third party payors is as follows:

Payor	Utilization Percentage	First Year Expense
Medicaid	6%	\$13,860,439
Medicare	35%	80,852,558
Private/Self Pay	47%	108,573,435
Other	12%	27,720,877
Total	100%	\$231,007,309

Hattiesburg Clinic projects that 8.4% of gross patient revenue will be provided to bad debt and/or uncompensated care.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid takes no position on this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the acquisition of an MRI unit as contained in the *FY 2006 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, revised August 12, 2006*; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Hattiesburg Clinic, Professional Association, for the acquisition of a second MRI unit to be located at 415 South 28th Avenue, Hattiesburg, Mississippi.

ATTACHMENT 1

**HATTIESBURG CLINIC PROFESSIONAL ASSOCIATION
Three-Year Operating Statement**

	Year 1	Year 2	Year 3
Revenue			
Gross Patient Care Revenue	\$510,445,000	\$557,943,800	\$608,639,960
Deduction From Revenue:	(279,163,674)	(320,058,409)	(364,345,890)
Charity/Bad Debts			
Contractual Adjustments			
Net Patient Care Revenue	231,281,326	237,885,391	244,294,070
Other Operating Revenue	2,194,000	2,249,000	2,305,000
Total Operating Revenue	\$233,475,326	\$240,134,391	\$246,599,070
Operating Expenses			
Salaries	131,378,712	135,094,254	138,706,705
Benefits	20,360,905	20,929,686	21,478,223
Supplies	40,323,712	41,435,655	42,503,586
Services	10,807,452	11,094,143	11,313,971
Lease	4,428,000	4,495,000	4,562,000
Depreciation	5,367,835	5,427,835	5,487,835
Interest	4,775,714	4,979,635	5,193,653
Other	13,564,979	14,149,345	14,486,345
Total Operating Expense	\$231,007,309	\$237,605,553	\$243,732,318
Net Operating Income	\$2,468,017	\$2,528,838	\$2,866,752
Assumptions			
Charge per Scan	\$ 1,379	\$ 1,408	\$ 1,408
Cost per Scan	\$ 377	\$ 379	\$ 382
Number of Scans	6,763	6,841	7,549

ATTACHMENT 2		
HATTIESBURG CLINIC PROFESSIONAL ASSOCIATION		
Computation of New Construction Cost		
	<u>Cost Component</u>	<u>Total</u>
	New Construction Cost	\$457,163
	Renovation Cost	
	Total Fixed Equipment Cost	
	Total Non-Fixed Equipment Cost	\$2,203,660
	Land Cost	
	Site Preparation Cost	
	<i>Fees (Architectural, Consultant, etc.)</i>	\$32,001
	<i>Contingency Reserve</i>	
	<i>Capitalized Interest</i>	\$18,858
	Total Proposed Capital Expenditure	\$2,711,682
	Square Footage	1,159
	<i>Allocation Percent</i>	
	Costs Less Land, Non-Fixed Eqt.	\$508,022
	Cost Per Square Foot	\$438.33